

MIDTERM REPORT

2003 - 2005

Of the Administration of
Governor Ernie Fletcher



Kentucky
UNBRIDLED SPIRIT™

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Kentucky is a magnificent place of natural beauty, inviting communities and industrious people. The unbridled spirit of our commonwealth is renowned, but for too long Kentucky has settled for mediocrity. This attitude has hurt our state and our people.

Each day for two years, my administration's goal has been to move Kentucky forward, increase Kentucky's competitiveness, run government efficiently and provide world-class services to all Kentuckians. This midterm report outlines the administration's main accomplishments, of which there are many.

Through innovative thinking and bipartisanship in the General Assembly, we witnessed a historic overhaul of Kentucky's tax code—the first such overhaul in 50 years. We are also achieving our goal to make Kentucky more business-friendly, to strengthen our educational system and to provide affordable, accessible healthcare to all of our citizens.



We are enhancing our transportation infrastructure, safeguarding Kentucky's rich agricultural heritage and renewing our commitment to protect our environment while using Kentucky's natural resources in a responsible way. Through the leadership of Lieutenant Governor Steve Pence, this administration is spearheading a statewide approach to combat and eradicate illegal drug use.

I am confident that the next two years will be as productive. Looking ahead, this administration's priorities include making Kentucky a destination for knowledge-based industries such as bio-sciences and information technology, creating a culture of lifelong learning and working to turn Medicaid into a sustainable system.

We have much to look forward to as we pursue new business and career opportunities for Kentucky workers, extend broadband access across the state and empower Kentuckians to choose healthy lifestyles.

The greatness of Kentucky will always be its talented and enterprising people. Together, we can build a Kentucky that restores hope and opportunity to all.

As I travel the state, I grow increasingly optimistic about Kentucky's future. With each visit I am reminded that our people are good, our hope is unwavering and our faith is unshakable. It is an honor and a privilege to serve you as Governor.

Sincerely,

A stylized, handwritten signature in white ink that reads "Ernie Fletcher".

Governor Ernie Fletcher



ECONOMIC DEVELOPMENT

“Hybrid technology is the future of the global automotive industry, and we are proud that Kentucky will play a key role.”

Governor Fletcher announcing that the Toyota Camry Hybrid will be manufactured in Kentucky. May 17, 2005.

“Fidelity has been a long-standing, valued corporate citizen for Northern Kentucky as well as the entire commonwealth for more than a decade. They’ve created job opportunities for thousands of Kentuckians and invested millions of dollars in our state.”

Governor Fletcher announcing Fidelity Investments \$115 million investment in Kentucky which will create 1,500 jobs. June 2, 2005.

Growing good jobs in Kentucky is a top priority for Governor Fletcher. This is accomplished by cultivating a business-friendly environment within the commonwealth. In order to keep Kentucky’s best and brightest working and living in Kentucky and attract more creative talent to our state, Governor Fletcher has made a commitment to building a competitive economy for the next generation.



Growing Jobs in Kentucky

- More than 60,000 new jobs created since January 2004.
Source: U.S. Bureau of Labor Statistics
- More than \$4 billion in new and expanded manufacturing investment.
- Nearly 26,000 new jobs in new and expanded manufacturing.
- More Kentuckians employed during 2005 than any other time in Kentucky’s history.

Kentucky - Open for Business

- Ranked 4th in Site Selection. Competitiveness Award
- Ranked 12th of U.S. states for new and expanded facilities.
- Five Kentucky Metropolitan Areas ranked in Top 100 business climates.
- Eight Kentucky communities ranked in Top 100 Micropolitan areas for corporate expansions.

Source: Site Selection Magazine



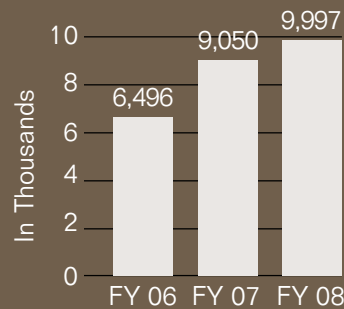
"The expansion will create hundreds of new jobs and create new opportunity for Greater Louisville's competitive workforce. My administration is committed to economic development, and I commend UPS for working with us to make Kentucky a better place to live, work and do business."

Governor Fletcher announcing UPS's \$82.5 million expansion in Jefferson County, which will create 1,000 new jobs. February 25, 2005.

Legislative Accomplishments to Grow Kentucky's Economy

- **JOBS for KY Plan** - Historic modernization of Kentucky's tax system. (HB 272 - 2005 Session)
- **Kentucky Enterprise Initiative** - Promoting new capital investment in Kentucky. (HB 272 - 2005 Session)
- **Kentucky Jobs and Wages Initiative** - Promoting high wage jobs in Kentucky. (HB 593 - 2004 Session)
- **Rural Broadband Act of 2004** - Expanding broadband statewide. (HB 627 - 2004 Session)
- **Small Business Regulatory Fairness Initiative** - Giving small business a stronger voice in government. (HB 609 - 2004 Session)

JOBS for Kentucky tax modernization will create 10,000 new jobs for our citizens



Some Notable Announcements:

Company	Jobs
Fidelity Investments	1,500
Humana Inc.	1,100
UPS	1,000
LG&E	735
UGN Inc.	300
Joy Mining Machinery	300
Bensen International	250
North American Stainless	175
ABC Group	165
Hydro-Gear	150
S.P.A.	100
Toyota	100





"The potential growth of these areas is simply staggering."

Governor Fletcher announcing the release of Kentucky's *Life Sciences Strategic Plan*. August 11, 2005.

Building a Knowledge-Based Economy – the Life Sciences

Governor Fletcher's *Life Sciences Strategic Plan*

Focus Areas:

- Natural Products
- Medical Devices
- Health Technology Services
- Niche Pharmaceuticals & Biotechnology

Building a Knowledge-Based Economy – Broadband Expansion

"Adequate access to the global marketplace through broadband infrastructure enables knowledge-based economic development and has the ability to enhance the lives of our citizens and businesses. The future of our economy depends on our success and we owe it to our children to deliver."

Governor Fletcher announcing his *Prescription for Innovation*, a comprehensive plan for statewide broadband deployment. October 7, 2004.

Governor Fletcher's Prescription for Innovation – Results Oriented

- Federal Communications Commission reports that in 2003 and 2004, Kentucky's broadband growth rate leads the nation.
- Broadband availability to Kentucky's households has increased from 60% to 75% since 2003.
- 240,000 more Kentucky households have broadband Internet service available.





A Commitment to Kentucky's Small Businesses

Governor Fletcher's Small Business Initiatives:

- Enhanced support for a more effective Commission on Small Business Advocacy. (SB 38 – 2005 Session)
- Creation of a small business loan program for companies with 50 or fewer employees. (SB 156 – 2005 Session)
- Making health insurance more affordable and accessible to small business. (HB 278 – 2005 Session)
- Launching www.kentuckybusinessfinder.com – an online source connecting Kentucky's businesses.



Branding the Commonwealth

"Our intention is, 'One State, One Vision, One Brand.'"

Governor Fletcher announcing that Kentuckians would be asked to vote on branding the state. October 26, 2004.

The Branding Campaign:

- More than 55,000 votes were cast to select the winner.
- "Unbridled Spirit" received more than 35,000 votes.
- Saved \$2.5 million through streamlined marketing campaign.
- Over 100 of Kentucky's cities and counties using "Unbridled Spirit" brand.



"Small businesses are vital to the commonwealth."

Governor Fletcher announcing a new loan program for businesses with 50 or fewer employees, which account for 95% of Kentucky jobs. September 23, 2005.





EDUCATION

Governor Fletcher is committed to providing a world-class education to Kentucky's children and its citizens. Knowledge is a cornerstone upon which Kentucky's economy and quality of life must be built. Governor Fletcher is committed to providing early reading opportunities for Kentucky's children, bringing our teachers' salaries in line with surrounding states, and ensuring that higher education remains affordable.

Building Strong Foundations for Kentucky's Children

- *Read To Achieve* – Promoting research-based reading intervention and assistance for children struggling to read.
- *GEAR UP* – Secured a \$42 million federal grant to better prepare disadvantaged students for postsecondary education.
- *American Diploma Project* – Participating in a national effort to prepare all students for opportunities in college and in life.

“Kentucky must move forward to a second generation of systemic refinement. If we are to sustain our progress and meet our goals, we must act quickly.”

From Governor Fletcher's Education Vision: *It's All About Learning*. November 2004.

“If we get the reading right, the rest will fall into place.”

First Lady Glenna Fletcher



Commitment to Funding Education

K-12

- 12% increase in general fund appropriations for Elementary and Secondary Education:
 - \$6.196 billion in FY 2002-2004
 - \$6.944 billion in FY 2004-2006
- 8% increase in base per-pupil funding from SEEK:
 - \$3,191 in FY 2002-2004
 - \$3,445 in FY 2004-2006
- \$19 million increase in general funds for renovation and replacement of schools

Postsecondary

- 9% increase in general fund base appropriations for Postsecondary Education.
- \$81 million increase for public postsecondary institutions includes:
 - \$23.4 million restoration of FY 2004 reduction
 - \$5 million for student enrollment growth
 - \$11.1 million for operation of new facilities and maintenance
 - \$8.75 million for targeted programs
 - An additional, almost 2% across-the-board increase
- \$626.7 million in bonds for new construction, renovation, replacement and infrastructure projects on the campuses of postsecondary institutions, the highest level of bond projects ever funded in a budget.

Building the Education Pipeline

Governor Fletcher unified Kentucky's education components into the Education Cabinet – building a more comprehensive education pipeline for Kentucky's children and adults seeking continuing education.

The Kentucky Education Cabinet:

- *The Department of Education*
- *The Department for Workforce Investment*
- *The Council on Post-secondary Education*
- *The Department for Libraries and Archives*
- *Kentucky Education Television (KET)*



"I'm proposing a tuition tax credit of up to \$500 for each student going to Kentucky colleges and universities. This will help working families cope with the rising cost of tuition."

Governor Fletcher in his 2005 State of the Commonwealth address. The tax credit was included in his historic JOBS for Kentucky plan. (HB 272 – 2005 Session)





HEALTHCARE

Ensuring that Kentuckians have access to affordable, quality healthcare requires a comprehensive approach. Governor Fletcher is working to change healthcare in Kentucky by taking steps to control the costs of prescription drugs, enacting reforms to keep health insurance affordable, modernizing Medicaid and promoting technology to better manage information. His administration has renewed focus on early screenings and preventative medicine, community access to safe and healthy living. Through this approach, Kentucky is making healthy progress.

Legislative Achievements for a Healthier Kentucky

- Making Health Insurance More Affordable for Small Business (HB 278 – 2005 Session)
- Restoring Competition to Kentucky's Health Insurance Market (HB 650 – 2004 Session)
- Comprehensive Medicaid Modernization (HJR 136 – 2004 Session)
- Building Kentucky's e-Health Network (SB 2 – 2005 Session)
- Expanding Newborn Screenings (SB 24 – 2005 Session)
- Promoting Health Savings Accounts (HB 272 – 2005 Session)
- Encouraging Healthy Lifestyles in Kentucky's Schools (SB 172 – 2005 Session)
- Protecting Kentucky's Seniors from Elder Abuse (HB 298 – 2005 Session)



"There are so many positive things we can do to improve our health, and by working together we will promote the most effective programs that educate children and adults about healthy eating habits and proper exercise."

First Lady Glenna Fletcher speaking at one of nine Obesity Forums held throughout the commonwealth to gather public input dealing with obesity in our communities. August 19, 2004.

Affordable Prescription Drugs for Kentucky's Seniors

"As Governor, I will set up a 'one-stop shop' for Kentucky's seniors to find help with getting the prescription drugs they need."

From Governor Fletcher's *Restoring Hope* campaign platform.

Promise Made, Promise Kept

- Established assistance with the Medicare prescription drug program through "800 Hotline." (State Health Insurance Assistance Program – Call 877-293-7447)
- Statewide forums to educate Kentucky's seniors on benefits of Medicare prescription drug program.
- Working to ensure the full implementation of the Medicare prescription drug benefit.



A 21st Century Medicaid System

"We must establish better care, benefit and cash management of Kentucky's Medicaid program to ensure the best care possible for our patients."

Governor Fletcher's Budget Address to the General Assembly, January 27, 2004.



Comprehensive Medicaid Modernization:

- Providing better care for Kentucky's neediest citizens
- Joining a multi-state prescription purchasing pool – Savings: \$42 million
- Launching Medicaid's Kentucky Health Card – Savings: \$1.3 million
- Enhanced management of pharmacy costs – Savings: \$69.2 million
- Empowering individual choice within Medicaid (HB 116 – 2004 Session)





TRANSPORTATION

A safe and reliable transportation system is vital to Kentucky's future economic growth, national competitiveness and overall quality of life. Governor Fletcher is working to provide Kentucky with new and expanded roads and infrastructure. He is focused on ensuring that Kentuckians and their children are traveling with safety in mind.



Paving the Way to Kentucky's Future

- Investing more than \$750 million in Kentucky's roads in FY 2005.
- \$150 million in innovative financing to widen I-64, I-75 and I-65.
- \$150 million to assist city and county governments in maintaining roads and bridges.
- Improvements in overtime reduction, contract bidding and scrutiny of change orders saved the Transportation Cabinet more than \$74 million that was reinvested in our roads.
- After years of planning, initiated construction of I-66 in Pulaski County.



Overweight Coal Trucks – A Case Study in Effective Government

“There has been a dramatic increase in the number of coal trucks that are now in compliance on our roads and there is no doubt that coal trucks in compliance save lives.”

Lt. Governor Steve Pence highlighting improvement by the Fletcher administration in overweight coal truck enforcement in eastern Kentucky. September 28, 2005.

Action Equals Results

- Reduced the percentage of overweight trucks from 71% to 3.8%
- Improved vehicle compliance by 95%
- Fatalities reduced by 17 people – 17 more Kentuckians going home, going to work and going to school.

Sun Sets on “Mr. Smiley” Plate

“This is a phenomenal opportunity to showcase our new state brand. We are very excited about the new license plate and hope this captures the approval of every citizen throughout the commonwealth.”

Governor Fletcher announcing that Kentucky’s “Unbridled Spirit” will be on state license plates. July 19, 2005.





AGRICULTURE

“Our state park dining rooms will now be a showcase for our outstanding Kentucky produce. Farmers in all parts of the commonwealth will be able to easily sell their fresh fruits and vegetables to our parks.”

Governor Fletcher announcing that Kentucky State Parks will buy local produce from local farmers. August 6, 2004.

Governor Fletcher is committed to preserving and promoting growth in agriculture and Kentucky’s horse industries. He has kept his commitment to tobacco farmers to protect Phase II payments. He continues to support agricultural diversification and has sought opportunities for state government to use local, fresh produce and beef products. He will remain committed to agriculture’s proud heritage and will promote its bright future.



Supporting Agricultural Development

Governor Fletcher continues to honor his commitment to devote 50% of Phase I to farmers. Since January 2004, the Agricultural Development Board has committed over \$57 million to an array of county, regional, and state projects designed to increase net farm income and create sustainable new, farm-based business enterprises.

Commitment to Kentucky's Horse Industry

Accomplishments:

- Formed the Kentucky Horse Racing Authority to govern and promote Kentucky's horse industry.
- Created the "Breeders Incentive Fund" to attract and keep horse breeders in Kentucky.
(HB 272 - 2005 Session)
- Supported incentives to attract international horse racing events to the commonwealth.
(HB 350 - 2005 Session)
- Appointed a blue ribbon commission to study workers' compensation for jockeys at Kentucky's race tracks.



Protecting Phase II Payments

"It is essential that Kentucky's farmers receive the Phase II payments so many of them need in order to provide for their families and make an effective transition into the post buy-out agricultural economy."

Governor Fletcher, November 22, 2004. Legislation enacted in the 2005 Session ensures that Kentucky's farmers will continue to receive their Phase II payments.





CRIMINAL JUSTICE



Combating Kentucky's Drug Problem

"We are engaging in a new strategy to overcome substance abuse in Kentucky."

Governor Fletcher announcing his "Recovery Kentucky" program aimed at rehabilitation for substance abusers. January 3, 2005.

Kentuckians deserve to be safe and secure in their homes and their communities. Together with Lieutenant Governor Steve Pence, Governor Fletcher is working to fight drugs, fight crime and provide our peace officers the resources they need. Together, they are changing Kentucky's efforts on crime. It is no longer enough just to be tough on crime. We must be effective as well.

The Fletcher/Pence Record:

- Statewide Drug Control Policy Summit – Comprehensive strategy to combat drugs.
- Recovery Kentucky – New rehabilitation services for 1,000 Kentuckians.
- Drug Courts – New funding for drug diversion programs. (HB 267 – 2005 Session)
- Historic Anti-Methamphetamine Legislation. (SB 63 – 2005 Session)
- Upgrading KASPER – Enhanced monitoring of abusive prescription practices. (SB 14 – 2004 Session)

"While we need to be tough on crime, we also need to be smart on crime. We can't just lock people up and expect the problems to disappear."

Lt. Governor Steve Pence. August 1, 2005.



Protecting Kentucky's Most Vulnerable:

- Protecting the Unborn – Fetal Homicide Legislation (HB 108 – 2004 Session)
- Protecting Kentucky's Elders (HB 298 – 2005 Session)
- Establishing the Kentucky Coalition Against Sexual Assault
- Enhancing Kentucky's Amber Alert System

Kentucky Homeland Security: Securing the Commonwealth

- Focus on Prevention – Kentucky Community Preparedness Program
- Securing Transportation Routes and Infrastructure with Technology Investments
- Interoperable Communications for All First Responders
- Preparing Kentucky's Families – Encouraging Family Emergency Communications Plans



"We must ensure Kentucky is prepared to respond to a potential emergency and allow families to feel more secure in their communities."

Governor Fletcher announcing the Kentucky Community Preparedness Program. January 31, 2005.





"We want to grow our economy, utilize our resources in a sustainable manner and at the same time, protect and maintain our commitment to environmental quality."

Governor Fletcher announcing that Kentucky was joining the Appalachian Regional Reforestation Initiative, a program that promotes the reforestation of coal-mined lands using high-value hardwood trees. August 17, 2005.

ENVIRONMENT

A state that has as much natural beauty as Kentucky deserves a Governor that places a high value on protecting the environment. Governor Fletcher's administration is improving Kentucky's environmental quality through compliance, enforcement and cleaning up existing problems. With the Governor's focus on the environment, Kentucky's beauty is being preserved for the next generation.

Agenda for a Cleaner Kentucky

- *Environmental Stewardship Tax Credits – Encouraging the production of environmentally-friendly technologies.* (HB 272 – 2005 Session)
- *Recycling Tax Credits – Promoting recycling facilities in Kentucky.* (HB 272 – 2005 Session)
- *Biodiesel Tax Credits – Encouraging the production and use of clean fuels.* (HB 272 – 2005 Session)
- *Black Water Task Force – Working to prevent future environmental problems in Kentucky's coal fields.*
- *Recruiting Toyota's Camry Hybrid Production to Georgetown.*
- *Expanding the State's Hybrid Vehicle Fleet.*

Cleaning up Kentucky's Brownfields

- Enacted clear guidelines to protect public health when brownfields are developed.
- Brownfield Redevelopment Tax Credits will promote the redevelopment of Kentucky's brownfields. (HB 272 – 2005 Session)
- Initiated legislation to allow long-term monitoring of reclaimed brownfield lands. (HB 472 – 2005 Session)
- Facilitated the establishment of a Kentucky Chapter of the National Brownfield Association.

Expanding Kentucky's State Parks

- \$1.4 million from the Land and Water Conservation Fund for Pine Mountain Trail State Park in Pike, Letcher, Harlan and Bell counties.
- A 13-acre addition to John James Audubon State Park.
- A 100-acre tract for Natural Bridge State Resort Park.
- 30 acres for William Whitley State Historic Site
- 70 acres at Blue Licks Battlefield State Resort Park.
- Acquired Wickliffe Mounds, the commonwealth's 11th state historic site.

"I am encouraging every Kentuckian to take personal responsibility for our environment by recycling more this year. Bottles, cans, cardboard, newspapers and plastics all have value and should be recycled."

Governor Fletcher kicking off Earth Week 2005. April 18, 2005.





ENERGY

"Responsible energy development and a commitment to preserving our environment are not mutually exclusive of one another. We can find the proper balance."

Governor Fletcher announcing the formation of the Commonwealth Energy Policy Task Force. November 5, 2004.

Kentucky is a land blessed with abundant natural resources, industrious people and great natural beauty. Our challenge is to grow our economy, utilize our resources in a sustainable manner and protect and maintain our commitment to environmental quality. To accomplish these objectives, Governor Fletcher took the lead to launch Kentucky's first comprehensive energy strategy.

Governor Fletcher's Energy Policy Principles:

- Maintain Kentucky's low-cost energy.
- Responsibly develop Kentucky's energy resources.
- Preserve Kentucky's commitment to environmental quality.



Accomplishments for Kentucky's Energy Future:

- Created the Office of Energy Policy – A continued commitment to Kentucky's energy future. (SB 40 – 2005 Session)
- Biodiesel Tax Credit – to promote cleaner fuels. (HB 272 – 2005 Session)
- Clean Coal Tax Credit – Promoting Kentucky coal. (HB 272 – 2005 Session)
- Coal Workforce Investment – Growing a skilled workforce. (HB 267 – 2005 Session)
- Energy Research and Development – Ensuring a cleaner energy future. (HB 267 – 2005 Session)
- Coal Bed Methane – Encouraging responsible development of Kentucky's energy resources. (HB 577 – 2004 Session)

Hurricane Katrina: Decisive Action during a Time of Energy Crisis

"I instructed my administration to take immediate, appropriate steps to help ease the suffering of Kentucky's consumers."

Governor Fletcher announcing steps to deal with the gasoline and fuel shortages after Hurricane Katrina. September 2, 2005.

Taking Action

- Protected Kentucky's consumers from price gouging.
- Petitioned the U.S. EPA for relief from costly federal mandates.
- Implemented regulations to help smaller gas stations sell product to customers.
- Placed immediate travel restrictions on the state fleet to conserve gasoline.



"As we implement our comprehensive energy plan, Kentucky will be well-positioned to continue to lead the nation in affordable energy while we become better stewards of the environment."

Governor Fletcher unveils his Comprehensive Energy Plan. February 7, 2005.



EFFECTIVE GOVERNMENT



"We are changing the way state government does business, and we are improving the value of the services we provide. I'm confident we will recognize even more notable savings over the next several years."

Governor Fletcher announcing the effectiveness of his efficiency measures. December 3, 2004.

Governor Fletcher came to office to change the way Frankfort had done business. He is committed to maximizing the value of each tax dollar spent and providing the citizens of Kentucky with the services they need. Efficient government is effective government. Kentuckians deserve both and Governor Fletcher is delivering on his mandate for change.



Responsible Management of the Taxpayer's Money

- Inherited and balanced a \$300 million budget shortfall in FY 2004.
- Reorganized government from fourteen cabinets to nine for better streamlined operations.
- Rebuilt Kentucky's "Rainy Day Fund" to \$119 million.
- Collected \$127 million in delinquent taxes in 2004.
- Cancelled over 1,300 state credit cards, reducing the credit limit by \$285 million.
- Better management of change orders in the Transportation Cabinet, realizing a cost savings of \$74.5 million.
- Built a \$249 million budget surplus through responsible budgeting and efficiency measures.

Case Study in Effective Management: The State Fleet

"As part of my pledge to increase the efficiency and effectiveness of government, I'm happy to announce that for the first time we now have an accurate accounting of all state vehicles. The results of this statewide inventory will allow us to fully utilize our resources while ensuring added value and cost savings to Kentucky taxpayers."

Governor Fletcher announcing the results of the first comprehensive inventory of the state vehicle fleet. July 28, 2005.

What Did the Inventory Find?

- 5,600 plus vehicles in the state fleet
- 148 vehicles had never been inventoried
- 64 vehicles had been sold without being taken out of inventory
- 31 vehicles with damaged windshields
- 197 vehicles with body damage
- 18 vehicles with brake problems
- 17 vehicles with broken headlights and taillights

Estimated savings due to better management: \$2-3 million annually.

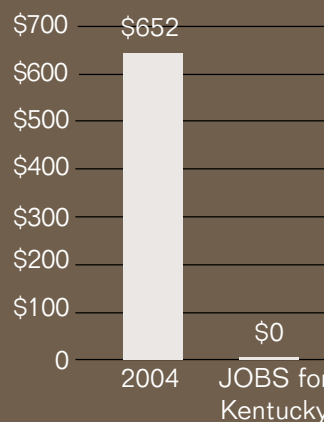


Governor Fletcher: Working for the People of Kentucky

- "No Child Left Offline" – Refurbishing 500 state-owned computers for underprivileged youth.
- Hurricane Katrina Relief – Connecting emergency management with Kentucky's faith-based organizations.
- Kentucky Elder Readiness Initiative – Examining the needs of an aging population.
- Expanding Newborn Screenings – Additional \$3.1 million for Kentucky's children.
- Governor's Empowerment Conference – Promoting opportunities for Kentucky's minorities and all Kentucky citizens.



JOBS for Kentucky Eliminated Kentucky Income Tax for a Family of Four at the Poverty Level

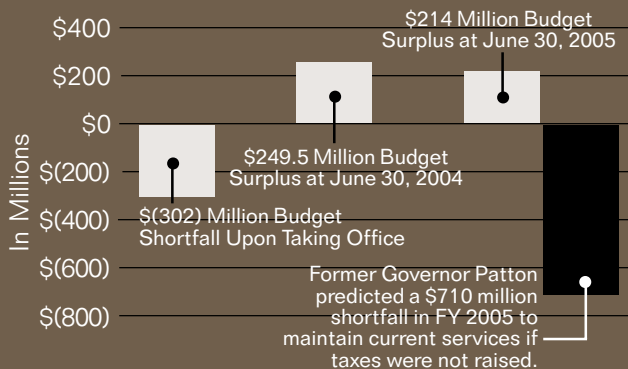


Before JOBS for Kentucky, Kentucky ranked highest of all U.S. states in tax burden on a family of four at the poverty level.

Governor Fletcher's JOBS for Kentucky plan eliminated the income tax burden upon a family of four at the poverty level.

KENTUCKY – MOVING FORWARD

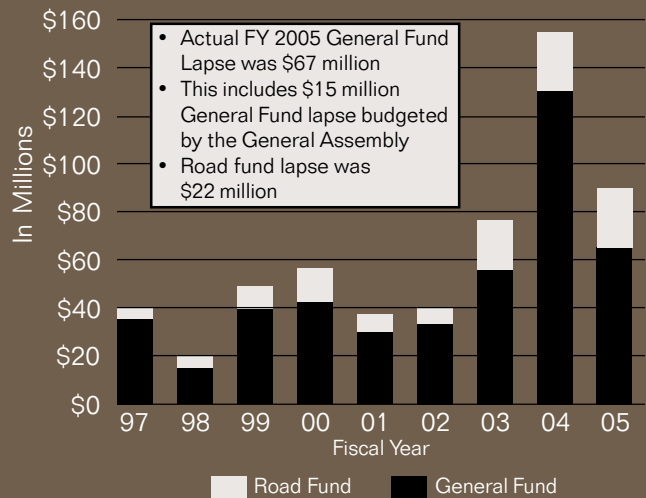
From Shortfall to Surplus



Governor Fletcher Inherited a General Fund Shortfall upon Taking Office and Transformed It into a Budget Surplus in 18 Months

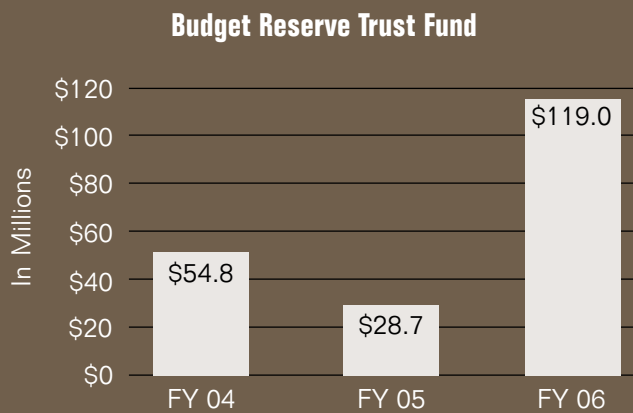
- When Governor Fletcher took office in December of 2003 he faced an immediate \$302 million General Fund budget shortfall.
- Despite the failure of the General Assembly to enact a budget in the 2004 session, Governor Fletcher brought spending in line with available revenues in Fiscal Year 2004, ending the year with \$249.5 million to be carried forward into Fiscal Year 2005.
- In Fiscal Year 2005, a combination of improved revenue collections and a focus on realizing efficiency savings resulted in a \$214 million budget surplus.

Keeping Spending Under Control



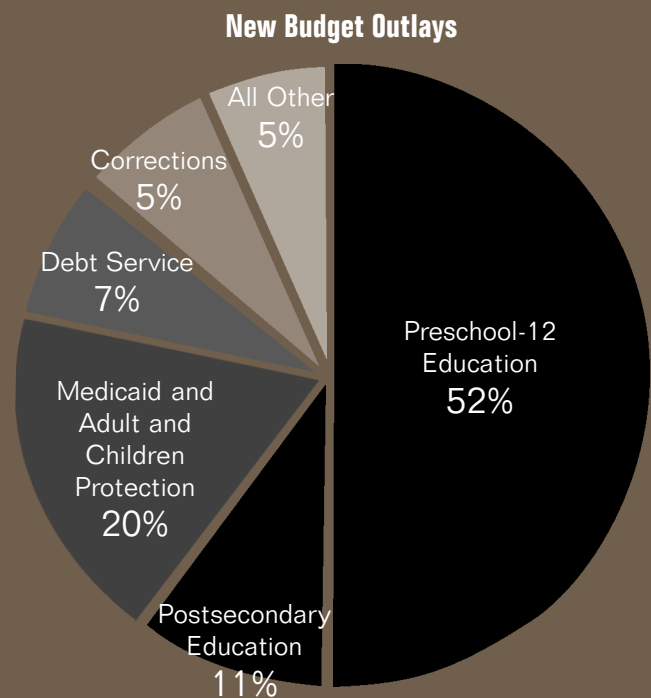
Careful Agency Spending Results in Remarkably High FY05 General Fund Lapses

- Under Governor Fletcher's direction, state agencies are finding ways to continue delivering services to our citizens while spending less money than they are allowed to spend.
- In Fiscal Year 2004, agencies didn't spend \$131.4 million in the General Fund that was appropriated.
- In Fiscal Year 2005, \$67.2 million in the General Fund was not spent, and lapsed, to be reallocated for priority issues.
- Road Fund lapses were \$25.6 million in Fiscal Year 2004 and \$22.5 million in Fiscal Year 2005.



Governor Fletcher is Committed to Restoring the Budget Reserve Trust Fund to Protect Kentucky's Credit Ratings

- Governor Fletcher understands the importance of maintaining a healthy balance in the state's Rainy Day Fund.
- Upon taking office, the Budget Reserve Trust Fund stood at \$54.8 million. It had been at a high of \$278 million during the Patton administration, but was depleted during budget shortfalls in 2001 – 2003.
- Governor Fletcher has dedicated the maximum amount allowed by law to restoring the Budget Reserve Trust Fund, bringing the balance to 1.5% of General Fund revenues in the current fiscal year FY 2006.
- The Governor's commitment to restoring the Budget Reserve Trust Fund played a significant role in the ability of the commonwealth to maintain its strong credit ratings, despite record levels of debt authorization and structural budget challenges.



Education, Medicaid, Corrections and Capital Projects were the Priorities of the 2004-2006 Budget

- \$983 million of new expenditures from the General Fund was committed to priority areas of government in FY 2006 as compared to FY 2004.

Education

- P-12 Education received an increase of \$526 million, including \$9 million in debt service for new local school construction.
- Postsecondary Education was increased by \$123 million, including \$18 million for debt service for campus construction projects.
- Combined, funds dedicated to P-12 and Postsecondary Education accounted for 63% of all appropriation increases.

Non-Education

- Medicaid General Funds were increased by \$164 million and Adult and Child Protection was increased by \$32 million.
- Corrections spending increased by \$46 million.
- Debt service of \$67 million was provided to secure financing for \$1.2 billion of new General Fund supported bonds for capital projects for state universities, local school construction, water and sewer development, economic development, information technology and major maintenance.

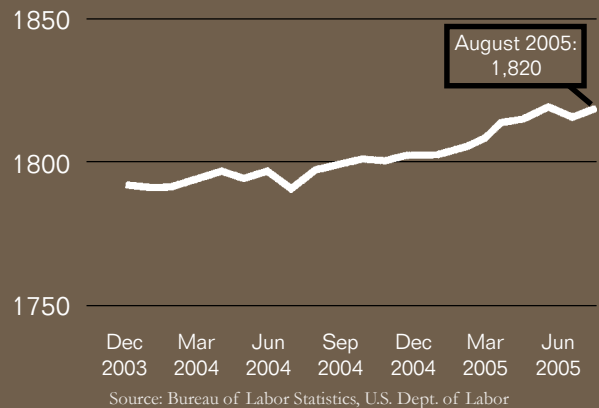
JOBS for Kentucky Tax Changes over Five Years

	Cuts	New Revenues	
Property	(\$53)	\$23	Lodging
Corp. License	(\$141)	\$43	Business
		\$45	Alcohol
Sales	(\$147)	\$84	Telecommunications
Individual Income	(\$369)	\$512	Tobacco
	(\$710)	\$707	

JOBS for Kentucky will make Kentucky's tax code more FAIR, RELIABLE, and GOOD for GROWTH

- The tax changes are revenue neutral over a five-year period.
- Tax cuts in the individual income, sales, corporation license and property taxes are offset by increases from tobacco, telecommunications, alcohol, business, and lodging taxes.
- The net effect of the tax code changes will be to position the commonwealth for better economic growth.
- Shifts in tax burden will occur from taxation on economic activity to taxation on activities such as smoking that do not advance our society.

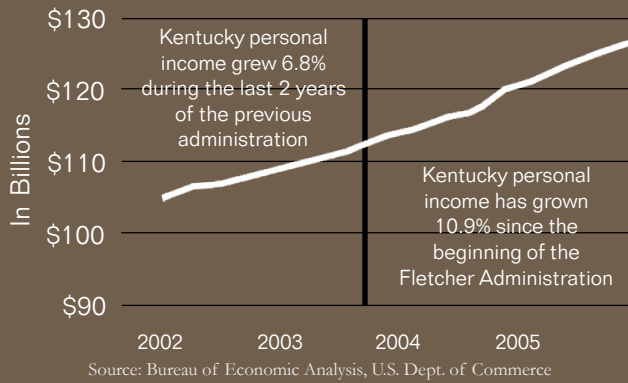
Employment (Nonfarm employment in thousands)



Employment in Kentucky is on the Rise

After Kentucky's employment peaked in March 2000, it bottomed out in July 2003. The recovery in employment since has accompanied increased productivity. August 2005 employment almost matched the peak of 2000.

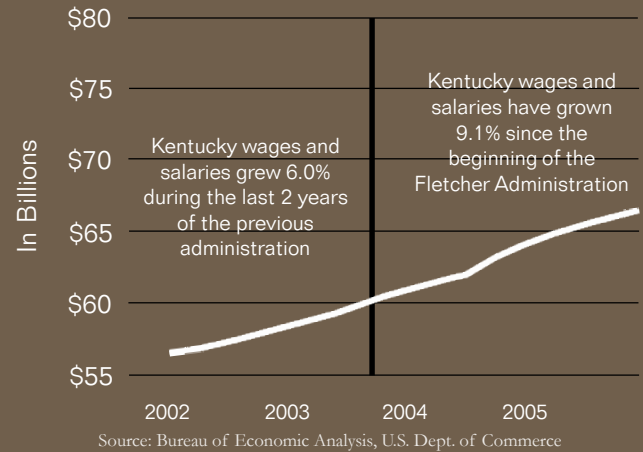
Personal Income



Kentucky Personal Income is Growing at an Increased Rate

- Personal income in Kentucky was \$112.61 billion in January of 2004 and has grown to \$124.89 billion in October of 2005, a 10.9% increase.
- Current projections used by the Consensus Forecasting Group, which estimates state revenues, are for personal income growth to be 14.2% from October 2005 through the end of Fiscal Year 2008.

Kentucky Wage and Salary Income



Kentucky Wage and Salary Income is Growing at an Increased Rate

- Wage and salary income in Kentucky was \$60.3 billion in January of 2004 and has grown to \$65.8 billion in October of 2005, a 9.1% increase.
- Current projections used by the Consensus Forecasting Group expect wage and salary income growth to be 13.2% from October 2005 through the end of Fiscal Year 2008.

